



HANDOUTS

Property Taxation Review Committee

September 1, 2004

City Property Tax Issues
Iowa League of Cities

DISCLAIMER

The Iowa General Assembly is not responsible for the content of the handouts, nor is any endorsement made of the handouts. These handouts are documents provided to the committee by other parties at meetings and are placed on the General Assembly website as a convenience.



Iowa League of Cities

Presentation to
**Iowa Property Taxation
Review Committee**

City Property Tax Issues

Wednesday, September 1, 2004

Property Tax Defined

A levy on wealth instead of income (income tax) or consumption (sales tax) including:

- Real property – land and permanent improvements
- Personal property (only Delaware, Hawaii, Illinois, Iowa, New York and Pennsylvania exempt all personal property from property taxes)
- Intangible property (most states exempt; only credit unions and loan agencies have an intangible tax levied in Iowa)

*Source: National Conference of State Legislatures "A Guide to Property Taxes: an Overview"

History of Property Tax

- Originally a national tax on land parcels for military needs
- Federal govt. relied more on tariffs as new state services were funded by property taxes
- By mid-1800s, local governments began taking over investment in transportation, infrastructure and schools, paid by property taxes
- States turned to sales taxes during the depression of the 1930s, and eventually imposed income taxes

*Source: National Conference of State Legislatures "A Guide to Property Taxes: an Overview"

Local Property Taxes as % of Local Taxes, FY1999

1. New Hampshire	98.98%
2. Rhode Island	98.6%
13. Iowa	91.8%
18. Illinois	82.9%
22. Nebraska	79.6%
29. Kansas	76.5%
40. Colorado	61.5%
41. Missouri	60.2%
49. Louisiana	39.4%
50. Alabama	37.5%

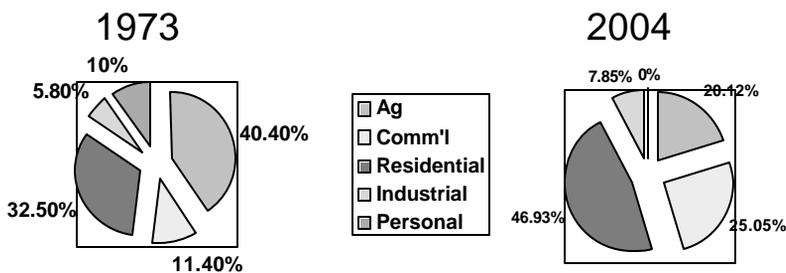
*Source: National Conference of State Legislatures "A Guide to Property Taxes: an Overview"

Property Tax in Iowa Since 1973

- In 1973, the property base included agricultural (assessed at 50% market and 50% productivity), residential, commercial, industrial, utility and business personal property
- In 1977, agricultural property became valued on productivity only to keep ag values from increasing while land speculators drove up the market value
- Rollback formula was implemented in 1978
- In 1982, machinery & equipment tax was reduced to 30% of actual value; and complete phase-out began in 1995
- Personal property on businesses was eliminated in 1985
- Decreased state and federal revenues, plus increased demand for services, results in increased property taxes on fewer remaining taxable parcels

Property Tax in Iowa Since 1973

There has been a dramatic shift from agricultural and personal property onto residential and commercial property:



(Industrial includes M & E, utilities and railroads for purposes of illustration.)

How much property value exists in Iowa?

Statewide Taxable Valuation by Class

(Fiscal Year 2004, Assessment Year 2002)



▪ Residential - \$42.9 billion



▪ Agricultural - \$25.3 billion

▪ Agricultural Land - \$22.5 Billion

▪ Agricultural Buildings - \$2.8 Billion



▪ Business - \$33.9 billion

▪ Commercial - \$21.1 billion

▪ Industrial - \$3.8 billion

▪ Utilities - \$8.3 billion

▪ Other - \$0.6 billion

▪ **100% Gross Assessment:** \$102 billion

▪ **Net Taxable Value:** \$96.8 billion

*Source: 2003 Iowa Fact Book)

How much property tax is collected in Iowa?

Total Property Taxes Generated by Class of Property

(Fiscal Year 2004)



▪ Residential - \$1.418 billion



▪ Agricultural - \$607.5 million

▪ Agricultural Land - \$539.5 million

▪ Agricultural Buildings - \$68 million



▪ Business - \$993.6 million

▪ Commercial - \$756.4 million

▪ Industrial - \$127.2 million

▪ Machinery/Equipment and
Railroads - \$16.9 million

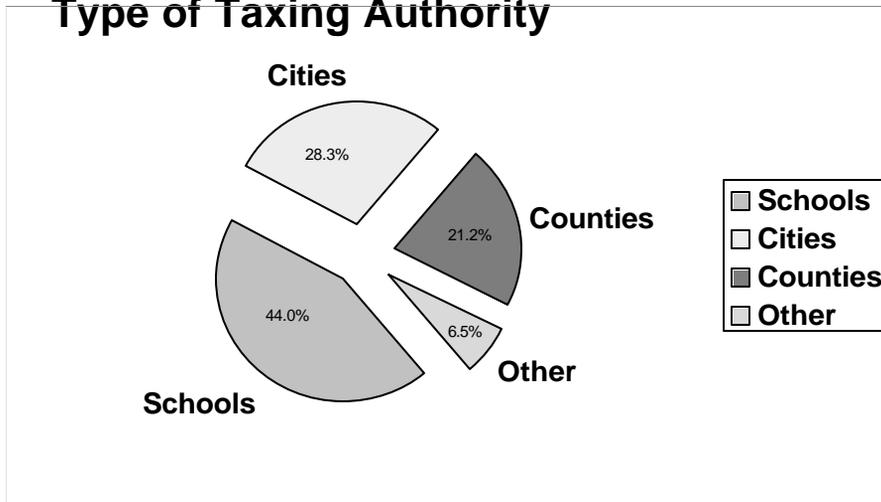
▪ Utilities - \$92.5 million

▪ Other - \$0.6 million

▪ **Gross Total** \$3.019 billion

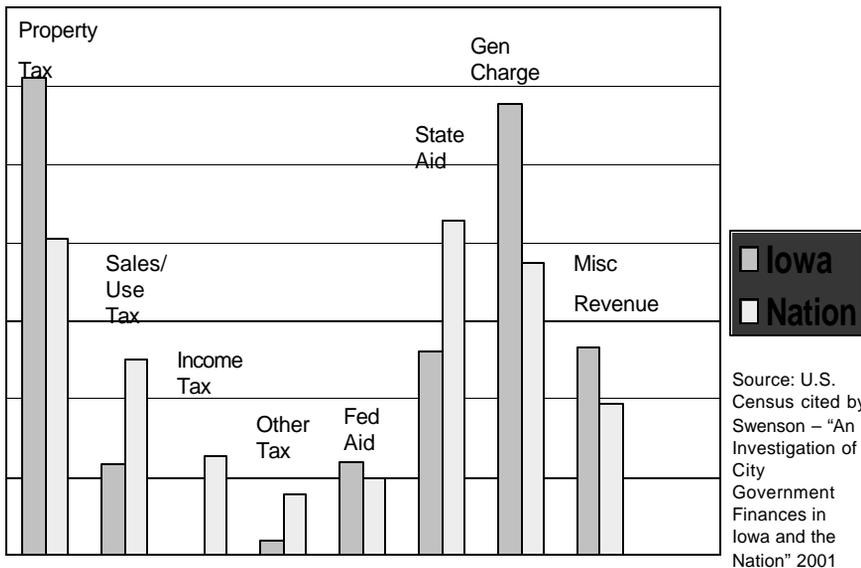
*Source: 2003 Iowa Fact Book)

FY 2004 Iowa Property Taxes by Type of Taxing Authority

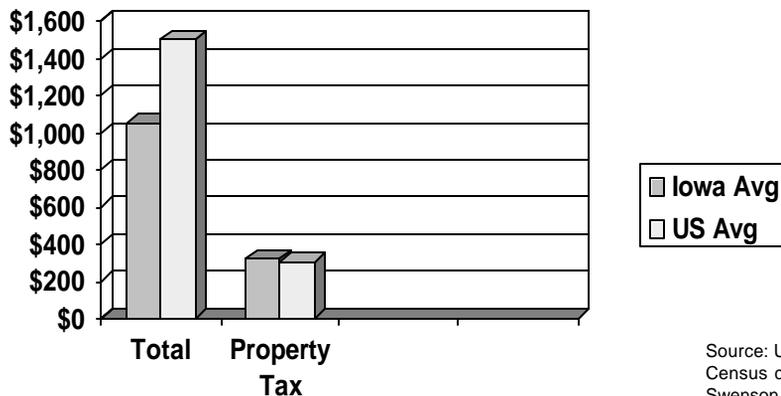


*Source: 2003 Iowa Fact Book

Comparing Iowa Cities to the Nation FY99 City Revenues Per Capita



Comparing Iowa Cities to the Nation FY99



Per Capita Total City Receipts:

\$1,046 Iowa Avg.

\$1,497 US Avg.

30% Difference

Per Capita City Property Tax Receipts:

\$320 Iowa Avg. (1/3 Total)

\$304 US Avg. (1/5 Total)

5% Difference

Source: U.S. Census cited by Swenson – "An Investigation of City Government Finances in Iowa and the Nation" 2001

What should property taxes pay for?

Services that protect or enhance the value of the property.

The property tax is the best possible revenue for local governments.

- **It meets the standard criteria for a sound revenue source:**
 - it is stable;
 - it offers revenue growth in proportion to economic growth; it is familiar;
 - it is readily administered and presents no difficulties for taxpayer compliance;
 - and its base cannot be moved somewhere else.
- **It is a reliable, locally based and productive tax that can maintain the independence and variety of local governments.**

Source: Local Tax Policy: A Federalist Perspective by David Brunori, Urban Institute Press, Washington, D.C., 2003.

Cities use property taxes 9 basic ways

1. Debt Service
2. Capital Projects
3. Public Safety
4. Public Works
5. Health and Social Service
6. Culture and Recreation
7. Community & Economic Development
8. Administration & General Government
9. Business Purposes (i.e. garbage collection)

*Source: Iowa Department of Management – GASB34 Accounting

City of Ames, Iowa

Property Tax Cost of Services per Residence Assumes Home Valued at \$100,000

	<u>02/03</u>	<u>03/04</u>	<u>04/05</u>
Streets/Traffic	147	139	126
Police Protection	95	102	106
Fire Protection	66	69	76
Recreation & Parks	49	47	46
Library	41	43	41
General Support Svc.	33	33	27
Transit	26	27	26
Resource Recovery	12	11	10
Planning	10	8	8
Storm Sewer	9	7	8
Animal Control	4	5	4
Building/Grounds/ Airport	4	4	3
Inspections/Sanitation	2	2	1
TOTAL	\$498	\$497	\$482

City of Ames, Iowa
Property Tax Cost of Services per Residence
Assumes Home Valued at \$100,000

	<u>02/03</u>	<u>03/04</u>	<u>04/05</u>
Assessed Value	\$100,000	\$100,000	\$100,000
Rollback	51.6676	51.3874	48.4558
Taxable Value	\$51,667	\$51,387	\$48,456
Tax Rate per \$1,000	9.63962	9.67627	9.94868
TOTAL PROPERTY TAX	\$498	\$497	\$482

What is working in the property tax system?

- **Property taxes are a relatively stable revenue source.**
 - **Citizens are provided chance for input on services and costs by attending budget hearings, voting on bond issues, etc.**
 - **Property taxes are deductible on federal and state tax returns.**
 - **It is locally based.**
- BUT – Problems exist, too. What should be done?**

League 2005 Policy Position: Property Tax Reform

Support a property tax reform initiative that eliminates inequities caused by rollback; improves accountability to taxpayers; eliminates the impact on local governments from state funding decisions regarding property tax credits; allows cities to respond appropriately to local issues; broadens the property tax base; and enables and protects revenue alternatives.

What is not working in the current property tax system?

NEED TO ELIMINATE INEQUITY CAUSED BY ROLLBACK

- **Rollback applies to all classes of property (not just residential)**
 - Implemented in 1978
 - Agricultural property valued based on productivity and tied to residential property
- **Rollback Rules**
 - Taxable valuation cannot grow more than 4% for any class.
 - 4% growth limitation, net of new construction.
 - There is no floor on a decrease – this resulted in an average statewide decline in ag values of 19% for 2004
- **Tax burden has shifted overall from ag to residential and commercial property; shift in city collections to commercial.**
- **Communities with high ratio of residential vs. commercial struggle with low valuation and high levies.**

City of Ames, Iowa Property Tax Cost of Services per Residence Rollback Demonstration

Assuming Home Value of \$100,000

	<u>02/03</u>	<u>03/04</u>	<u>04/05</u>
Assessed Value	\$100,000	\$100,000	\$100,000
Rollback	51.6676	51.3874	48.4558
Taxable Value	\$51,667	\$51,387	\$48,456
Tax Rate per \$1,000	9.63962	9.67627	9.94868
TOTAL PROPERTY TAX	\$498	\$497	\$482

Assuming Home Value Increasing 3% Annually

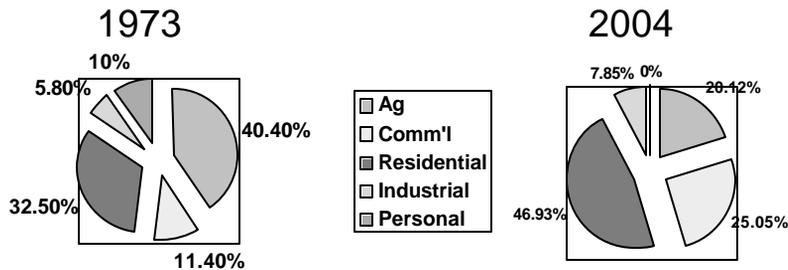
	<u>02/03</u>	<u>03/04</u>	<u>04/05</u>
Assessed Value	\$100,000	\$103,000	\$106,090
Rollback	51.6676	51.3874	48.4558
Taxable Value	\$51,667	\$52,939	\$51,407
Tax Rate per \$1,000	9.63962	9.67627	9.94868
TOTAL PROPERTY TAX	\$498	\$512	\$511
3% increase would be		\$513	\$528

Residential Rollback Factor

1978	78.2516%
1985	75.6481%
1990	79.4636%
1991	73.0608%
1992	72.6985%
1993	68.0404%
1994	67.5074%
1995	59.3180%
1996	58.8284%
1997	54.9090%
1998	56.4789%
1999	54.8525%
2000	56.2651%
2001	51.6676%
2002	51.3874%
2003	48.4558%
2004	Another drop is projected due to slight ag decrease

Property Tax in Iowa Since 1973

There has been a dramatic shift from agricultural and personal property onto residential and commercial property:



(Industrial includes M & E, utilities and railroads for purposes of illustration.)

Rollback Erosion

- **Worsens for cities at their \$8.10 general fund limit and \$.27 emergency levy limit**
- **Recent figures show over 700 of Iowa's 948 cities are at their general fund limit, a dramatic increase over the last five years**
- **Similar erosion occurs in a TIF district, where rollback applies only to the base**

What is not working in the current property tax system?

NEED TO IMPROVE ACCOUNTABILITY TO TAXPAYERS

- **Citizens should understand what government is mandated to fund; i.e.**
 - Iowa Code Section 364.16 says "each city shall provide for the protection of life and property against fire and may establish, house, equip, staff, uniform, and maintain a fire department."
 - Cities over 8,000 population must participate in MFPRSI, with city pension contributions escalating
- **Costs increase for other services, too.**
- **Current law may inhibit consolidation or cooperation.**

What is not working in the current property tax system?

NEED TO IMPROVE ACCOUNTABILITY TO TAXPAYERS

- **Confusing tax system leads to citizen distrust and dissatisfaction**
- **Citizens think the state controls property tax.**
- **Many loopholes, exemptions and credits have not been revisited for their value**
- **All elected officials need to understand property taxes**

What is not working in the current property tax system?

NEED TO ELIMINATE THE IMPACT ON LOCAL GOVERNMENTS FROM STATE FUNDING DECISIONS REGARDING PROPERTY TAX CREDITS

- **State mandates homestead credit, military exemption, elderly & disabled assistance, and ag land and family farm tax credits, and promises reimbursement**
- **Iowa Code Section 25B.7 authorizes proration of shortfall to taxpayers**
- **State funding is insufficient and ability to prorate has been threatened**

What is not working in the current property tax system?

NEED TO ENABLE CITIES TO RESPOND APPROPRIATELY TO LOCAL ISSUES

- **Levy limits (\$8.10 general fund and \$.27 emergency levy limit) and the rollback cause erosion of valuation for property tax purposes.**
 - **Cities and Community Colleges have hard levy limits; Counties can appeal their limits; Schools are guaranteed per pupil funding**
 - **Can be difficult to add a service, like full-time fire dept.**
- **Required referendum for LOST and bonds**
- **Many funds have restricted use (RUTF for example)**
- **Timelines for budgeting**
 - **Differs for cities, schools, counties**
 - **State decisions can impact budgets**
- **Price increases for insurance and employee costs are affected by factors not under the control of the city, including market factors and binding arbitration**

What is not working in the current property tax system?

NEED TO BROADEN THE PROPERTY TAX BASE

- Should non taxable property contribute toward the cost of services provided?
- Do current tax exemptions assist the state's economic policy?
 - Ag land credit
 - Forest and fruit tree reserve
 - Homestead credit
 - Military credit

Exempt Properties in Specific Cities

	<u>Total Exempt*</u>	<u>Total Taxed</u>
Cedar Rapids	\$474 Million	\$4.421 Billion
Des Moines	\$1.03 Billion	\$5.2 Billion

*Excluding government property

Exempt Property Example

CEDAR RAPIDS -- TYPES OF EXEMPT PROPERTY (2003 values as reported Feb. 2004)

Religious Institutions

Churches	\$108,158,374
Recreational	\$1,129,598
Schools	\$18,781,409
Residential	\$5,515,726
Church Camps	0
Others	\$4,456,146
Total of all Religious Institutions	\$138,041,253
Total of all Literary Societies	\$2,814,546
Total of all Low Rent Housing	\$12,276,340
Total of all Associations of War Veterans	\$526,597

Charitable and Benevolent Societies

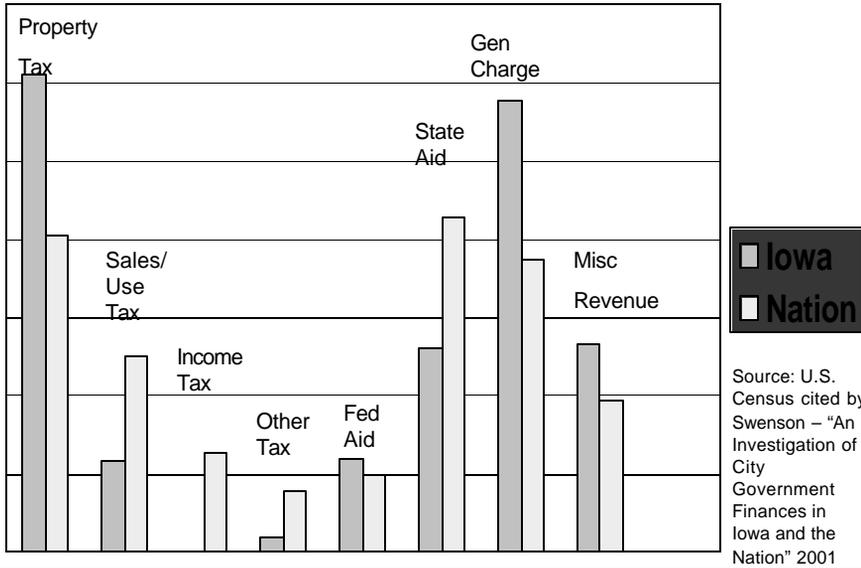
Hospitals	\$190,402,550
Fraternal Organizations	\$7,413,203
Agricultural Societies	\$2,752,324
Retirement Homes	\$7,407,753
Nursing Homes	\$8,030,057
Others	\$54,089,275
Total of all Charitable and Benevolent Societies	\$270,095,162
Total of all Educational Institutions	\$49,872,835
Total of all Exempt Property (except. Govt.)	\$473,626,733

What is not working in the current property tax system?

IT LACKS ALTERNATIVE REVENUES!

- Antiquated distribution formula for Road Use Tax Fund (RUTF) and LOST shift burden to property tax.
- Iowa Supreme Court called upon legislature to enable park development fees.
- Utility franchise fees are an important local option.
- Allow voters to vote hotel/motel taxes above the current 7% cap.
- How might local income tax fit into the system.

Comparing Iowa Cities to the Nation FY99 City Revenues Per Capita



Q & A

Susan Judkins

Director of Governmental Affairs

Iowa League of Cities

317 Sixth Avenue, Suite 800

Des Moines, Iowa 50309

515-244-7282

susanjudkins@iowaleague.org